

DEPARTMENT OF STATE

Bureau of Intelligence and Research

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MEMORANDUM: Cuba as a Showcase in Latin AmericaAbstract

Recognizing the value of the Cuban showcase in the Western Hemisphere, the bloc has already furnished extensive material support to consolidate the Castro regime's position. To foster the spread of leftist revolutionary governments in Latin America, the Soviets are likely to provide fairly substantial additional support to Castro if current levels prove inadequate. Because of its success in defying the United States and carrying out a social revolution, Castro's Cuba is already very impressive to Latin Americans. In the longer run, to continue and enlarge its drawing power, the Cubans must demonstrate real economic progress of the sort commonly desired in Latin America through industrialization and a high rate of growth.

Cuban plans point to an ambitious program of investment and expansion, although not with the orthodox communist concentration on heavy industry. Castro inherited many of the requirements for rapid economic development, and the new regime has supplied some that were previously lacking. His major contribution to development prospects has been to break institutional and psychological barriers, securing control of resources for the state and motivating and mobilizing the population for a development effort. The most serious liability resulting from the revolution has been the flight or opposition of management and technical personnel, and economic and business mismanagement has been one of Castro's greatest weaknesses.

Assuming that the bloc continues to provide a market for most of Cuba's sugar and other exports, its additional contribution (calculating trade values at present world prices) might have to be between \$100 million and \$200 million per year to help finance planned capital goods imports of \$1,100 million over the five year period, 1961-65. Although bloc aid is essential, the main burden of the development effort will rest on the Cubans. A net balance of Castro's assets and liabilities suggest that the five-year plan goals are optimistic. Yet even partial success in economic development would constitute an impressive showcase for Latin Americans, especially with the amplifying effect of the bloc propaganda machine.

Soviet Objectives

Support of the Castro regime in Cuba is a high priority objective of Soviet foreign policy, and Soviet prestige is closely identified with the maintenance and progress of the regime. For the present the Kremlin does not desire the establishment of an avowedly Communist regime which would (a) involve defense commitments and risk of war and (b) jeopardize the attraction of the Cuban model elsewhere in Latin America.

Recognizing the value of Cuba as the bloc beachhead in the Western Hemisphere, the Soviets have already furnished extensive material support to consolidate the Castro regime's position. Through this example of expanding trade and aid together with Castro's own foreign policies and domestic "reform" programs the Soviets hope to foster the spread in Latin America of leftist revolutionary governments with an anti-US or preferably a pro-Soviet orientation. To this end the Soviets are likely to be willing to increase fairly substantially their economic support to Castro if current levels prove inadequate. Nevertheless, they almost certainly regard the economic development of Cuba as essentially a Cuban problem and, so far as their immediate objectives are concerned, probably believe that Cuban initiative must be visibly paramount with their own role a subsidiary supporting one. While an emergency would undoubtedly bring forth larger sums of aid the USSR probably believes that something considerably short of a major crash program would be sufficient to create in Cuba the type of showcase that would be most effective in achieving the bloc's broader interests in Latin America.

A Showcase in Cuba

To be useful as a continuing showcase for communism in Latin America, Cuba must attain development of the sort commonly desired in the other Latin American countries. The most important social and economic goals in Latin America are industrialization, rural development, social justice, and higher consumption levels. These have long been Cuban goals and were set forth in the 26th of July program before Castro came to power. Since few Latin Americans are aware of the substantial economic progress Cuba made during over fifty years of close ties with the United States, bloc propaganda can exaggerate Cuba's future economic progress, minimizing the real achievements made under previous governments.

Castro's Cuba is already an impressive showcase to many Latin Americans. The ability of the regime to continue as a going concern despite political and economic pressure from the United States has already had a great impact on Latin American opinion. Cuba's posture of successful opposition to the United States was strengthened by Castro's victory--using bloc-supplied military equipment--over the attempted invasion of last April. In addition, the Revolution's

reordering of society with its emphasis on the lower classes holds great appeal to many intellectuals and to much of the non-communist radical left. As the lower classes in Latin America--now largely outside the political process--become more politically active and aware of the changes going on around them, the Cuban example will gain even greater support. Despite the disenchantment of liberal democratic elements with Castro's police state, the totalitarian character of the regime will not seriously injure its appeal to the many who view social and economic progress as more important than individual liberties. However, over the longer term (five years) Cuba must begin to reinforce its social accomplishments with apparent economic progress if it is to continue to impress large numbers of Latin Americans and serve as a rallying point for radical reform movements.

Cuban Planning

Cuba plans to make rapid economic progress with a growth rate of 10% annually. Although Cuban plans are strongly socialistic, providing for state direction of the economy, they do not parallel the orthodox communist concentration on heavy industry. The major emphasis in Cuban plans is on 1) increasing production of existing industries to supply the growing local market and to expand exports, 2) initiating local production to replace most present imports of consumer necessities, 3) allocating more of national output to capital formation, 4) maintaining 1961 urban consumption levels and raising rural consumption to the urban level, 5) eliminating unemployment by 1965, and 6) establishing by 1965 self-generating economic growth at a very high rate. Even moderate success in these plans would make Cuba a showcase of economic progress.

Assets and Liabilities

Castro inherited many of the requirements for rapid economic development and the new regime has supplied some of those that were previously lacking. Cuba has relatively rich natural resources, and had already developed a substantial infrastructure and some manufacturing capacity before Castro, although these were not fully utilized. Cuba has rich soil and a very favorable climate; agricultural development has been extensive, not intensive; relatively little investment and improved technology can greatly increase returns. Production can be increased from some of Cuba's unused manufacturing capacity with little fixed capital investment. The Cuban railway system and ports are fairly well developed and maintained; rural roads and power generation facilities will need to be expanded to support greater production.

Cuba has traditionally had considerable excess labor supply, much of which is illiterate, untrained, and unskilled. Cubans are, however, generally considered adept at learning mechanical skills. Castro's oppression of the middle class has caused wholesale flight of individuals and opposition among the managerial and technical classes,

which will mean a serious shortage of trained people, especially as planned economic expansion is attempted. Economic and business mismanagement have already been one of the greatest weaknesses in the Castro economy. Use of bloc technicians and managers and recruitment of Latin Americans may partially fill this gap, but the continued emphasis on political loyalty in staffing managerial positions is expected to keep this problem to the fore.

Castro's major contribution to development prospects has been the breaking of previously existing institutional and psychological barriers. Investment capital and means of production are now monopolized by the state and directed toward planned goals, although many organizational kinks remain. More important, Castro has infused a large part of the population with expectations of social justice and economic improvement. He has mobilized and motivated the people, in effect placing the country on a war footing. (At least 200,000 Cubans are actually organized in paramilitary, military and police units.) The spirit needed for the development effort may wane, however, as the masses become used to their new importance, and there will be some increase of dissatisfaction with the regime as it continues to demand major sacrifices.

Castro inherited nearly depleted financial resources and credit from non-bloc countries has largely dried. Further, Cuba's major previous source of capital goods and raw materials, the United States, is no longer available. However, the regime plans to accumulate sufficient capital for its investment program through the projected rapid increase of national output and exports. The changeover to non-US suppliers of goods and parts has already been made, although there are many gaps in needed supplies. Capital goods imports of \$1,100 million are expected between 1961 and 1965. Financing of the plan assumes sugar exports of nine million metric tons by 1965, 60% to bloc markets, as compared to exports of 5.7 million tons in 1960.

Bloc Support

Since Cuban trade is now bloc oriented, the bloc must supply between \$500 million and \$700 million in goods and services per year* through 1965 in order for Cuba to get its development plan under way. Most imports from the bloc would presumably be paid for with sugar. Other Cuban exports might include nickel, chrome, and iron ore, tobacco and perhaps tropical foodstuffs, but sugar will have to provide on the order of 75% of export value to the bloc. At present world prices Cuban exports will not be sufficient to purchase the imports required

* Not including the value of such additional military equipment as may be supplied. Cuba has already received equipment valued at \$60-\$100 million.

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for the development plans. It is extremely difficult to measure the gap between the value of goods Cuba will have available for export and the value of required imports; however, at present world prices the gap might be between \$100 million and \$200 million per year. Thus minimum assistance required from the bloc would be: 1) to continue providing a market for most of Cuba's sugar; 2) to increase the sugar market as and if sugar output is increased; 3) to supply capital goods and raw materials in exchange for the sugar; 4) to give technical assistance which may be substantial if technical personnel continue to flee; and 5) to cover the gap by extending credits or grants equivalent to \$100 million to \$200 million annually*, including any premium paid on sugar.

The bloc has been extremely successful so far in filling the trade gap caused by the near termination of US-Cuban trade. In the first half of 1961 Cuban imports by tonnage approximated the peak 1958 levels, with more than 80% supplied from bloc sources.

Probability of Success

The main burden of this effort for development of a showcase will rest on the Cubans. The goals of the 5-year plan are optimistic. The record of the Castro regime in boosting production in the economy where more was required than simple expansion or fuller use of existing production capacity has not been good. Although 1961 was supposed to be the first year of the 5-year plan, disruptions caused by military mobilizations, as well as the slow delivery of bloc industrial machinery, appear to have delayed the effective implementation of the overall plan. During the next year or two acceleration of production will also probably be retarded by continued inability to secure parts and raw materials for existing equipment and by the reportedly destructive methods used in the 1961 sugar harvest. Nevertheless, the planned expansion of the Cuban economy will probably be a partial success because of Castro's inherited assets, the effective mobilization of human resources, and bloc help at the level considered likely.

Even the partial success in economic development which seems likely would constitute an impressive showcase for Latin America, especially with the amplifying effect of the bloc propaganda machine. Continued progress in reduction of the rural-urban imbalance with the elimination of rural illiteracy and incorporation of the rural population into the economy would supplement increases in production to create a valuable showcase for the bloc. Establishment of one or two prestige industries such as a steel plant or an automotive industry, as well as planned expansion of petroleum refining, electric power generation, and mineral production could well awaken envy in many Latin American hearts.

Not including the value of military equipment.